

AUDITING PROCEDURES REPORT

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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Vernon	County Shiawassee
Audit Date March 31, 2004	Opinion Date May 28, 2004	Date Accountant Report Submitted to State: August 17, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government* in Michigan as revised.
2. We are certified public accountants registered to practice in Michigan.

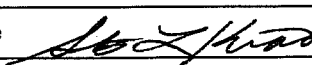
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name)		Lewis & Knopf, P.C.	
Street Address	5206 Gateway Centre, Suite 100	City	Flint
		State	MI
		Zip	48507
Accountant Signature 			

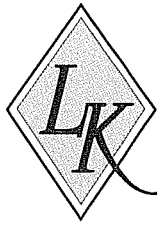
VILLAGE OF VERNON

VERNON, MICHIGAN

AUDIT REPORT FOR THE YEAR ENDED MARCH 31, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

May 28, 2004

INDEPENDENT AUDITOR'S REPORT

To the Village Council
of the Village of Vernon

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Vernon, as of and for the year ended March 31, 2004. These financial statements are the responsibility of the Village of Vernon's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Vernon as of March 31, 2004, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of the *GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2003, along with all related statements and interpretations.

The management's discussion and analysis and budgetary comparison information on pages II - IX and 15 - 17 are not required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Vernon's basic financial statements. The accompanying other supplementary information, as identified in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf PC
LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

As management of the Village of Vernon, we offer readers of the Village of Vernon's financial statements this narrative overview and analysis of the financial activities of the Village of Vernon for the fiscal year ended March 31, 2004. In the future, comparative analysis will be provided when prior year information becomes available.

FINANCIAL HIGHLIGHTS

- A. The assets of the Village exceeded its liabilities at the close of the most recent fiscal year by \$1,814,740 (net assets).
- B. The Village's total net assets increased by \$107,596.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Village of Vernon's basic financial statements. The Village's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary and additional information in addition to the basic financial statements themselves.

Government-Wide Financial Statements:

The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reports as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. delinquent personal property taxes).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs through user fees and charges.

The government-wide financial statements can be found on pages 1 and 2 of this report.

Fund Financial Statements:

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

Fund Financial Statements: (Continued)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Village maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, major street and local street funds, all of which are considered to be major funds.

The Village adopts an annual appropriated budget for its general fund and major street and local street fund. Budgetary comparison statements have been provided for the operation & maintenance fund and capital fund in the required supplementary information.

The basic governmental fund financial statements can be found on pages 3 through 4 of this report.

Proprietary Funds

The Village maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its sewer activity.

The proprietary fund financial statements can be found on pages 5 to 7 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 8 through 14 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents supplementary information. The supplementary information can be found on pages 18 through 23 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the Village, assets exceed liabilities by \$1,814,740 at the close of the most recent fiscal year.

The Village's net assets (26%) reflects its investment in capital assets (e.g., land, building, machinery, infrastructure and equipment), less any related debt used to acquire those assets that is still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

GOVERNMENT-WIDE FINANCIAL ANALYSIS

NET ASSETS
MARCH 31, 2004

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
Current Assets	\$1,026,371	\$326,423	\$1,352,794
Noncurrent Assets	<u>60,600</u>	<u>418,046</u>	<u>478,646</u>
Total Assets	\$1,086,971	\$744,469	\$1,831,440
 Current Liabilities	 12,677	 4,023	 16,700
 Net Assets			
Invested in Capital Assets – Net of Debt	60,600	418,046	478,646
Restricted	0	223,407	223,407
Unrestricted	<u>1,013,694</u>	<u>98,993</u>	<u>1,112,687</u>
 <u>TOTAL NET ASSETS</u>	 <u><u>\$1,074,294</u></u>	 <u><u>\$740,446</u></u>	 <u><u>\$1,814,740</u></u>

This year as well as last year, the Village is able to report positive balances in all three categories of net assets, both for the Village as a whole, as well as for its separate governmental and business-type activities.

During fiscal year ended March 31, 2004, the Village's net assets increased by \$107,596.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

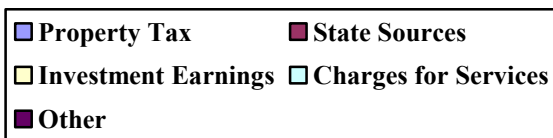
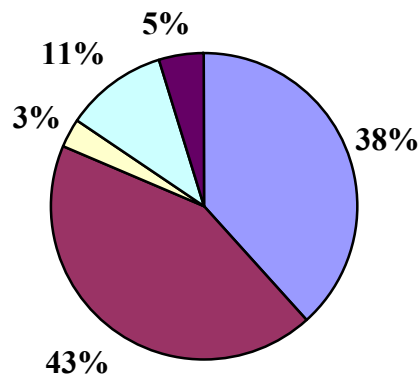
GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

CHANGES IN NET ASSETS
YEAR ENDED MARCH 31, 2004

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Revenues:			
Program Revenues:			
Charges for Services	\$40,244	\$72,775	\$113,019
General Revenues:			
Property Taxes	145,273	0	145,273
State Sources	163,680	0	163,680
Investment Earnings	12,081	3,366	15,447
Other	18,362	0	18,362
Total Revenues	<u>\$379,640</u>	<u>\$76,141</u>	<u>\$455,781</u>
Functions/Program Expenses:			
General Government	69,731	0	69,731
Public Safety	126,330	0	126,330
Public Works	105,873	0	105,873
Culture and Recreation	10,679	0	10,679
Sewer	0	35,572	35,572
Total Expenses	<u>\$312,613</u>	<u>\$35,572</u>	<u>\$348,185</u>
<u>INCREASE IN NET ASSETS</u>	<u><u>\$67,027</u></u>	<u><u>\$40,569</u></u>	<u><u>\$107,596</u></u>

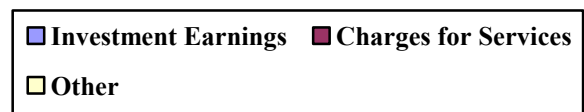
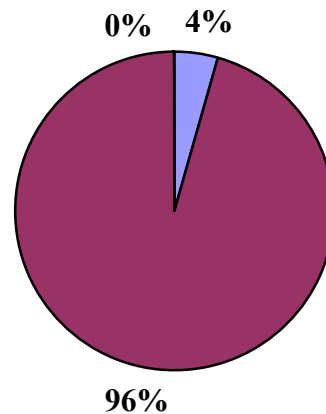
Revenues by Source – Governmental Activities

Total Revenues = \$379,640



Revenues by Source – Business-Type Activities

Total Revenues = \$76,141



VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

At the end of fiscal year 2004, the Village had \$1,031,621 million invested in land and buildings, furniture and equipment, and vehicles. Of this amount, \$552,975 in depreciation has been taken over the years. We currently have net book value of \$478,646. Total acquisitions for the year were \$65,907 and depreciation expense was \$32,570.

CAPITAL ASSETS AT YEAR END
(NET OF DEPRECIATION)

	Governmental Activities	Business Type Activities	Total
Land	\$0	\$27,426	\$27,426
Building and Improvements	18,040	380,084	398,124
Furniture and Equipment	23,836	10,536	34,372
Vehicles	18,724	0	18,724
<u>TOTAL</u>	<u>\$60,600</u>	<u>\$418,046</u>	<u>\$478,646</u>

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

GENERAL FUND REVENUE BUDGET VS. ACTUAL

	Revenues	Revenues	Revenues Final	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>		
2003-2004	\$358,460	\$371,600	\$308,097	-14.05%	-17.09%

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

GENERAL FUND EXPENDITURES BUDGET VS. ACTUAL

	Expenditures	Expenditures	Expenditures	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final Actual</u>		
2003-2004	\$358,460	\$371,600	\$332,594	7.22%	10.50%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Village approve the original budget for the upcoming fiscal year prior to April 1, the start of the fiscal year.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

GENERAL FUND BUDGET & ACTUAL REVENUES & EXPENDITURES (Continued)

		%
Total Revenues Original Budget	\$358,460	
Total Revenues Final Budget	<u>371,600</u>	
<u>(Increase) in Budgeted Revenues</u>	<u>(\$13,140)</u>	-3.67%

The Village's final, actual general fund revenues differed from final budget by \$(63,503), a variance of (17.09) percent from final budget.

General Fund Expenditures:

The Village's budget for expenditures changed as follows during the year:

		%
Total Expenditures Original Budget	\$358,460	
Total Expenditures Final Budget	<u>371,600</u>	
<u>(Increase) in Budgeted Expenditures</u>	<u>(\$13,140)</u>	-3.67%

As indicated above, the Village's actual expenditures were more than final budget by \$39,006, a variance of 10.5 percent from final budget.

MAJOR STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

MAJOR STREET FUND REVENUE BUDGET VS. ACTUAL

	Revenues	Revenues	Revenues Final	Revenues Variance Actual & Original Budget	Revenues Variance Actual & Final Budget
<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>		
2003-2004	\$52,000	\$52,000	\$53,697	3.26%	3.26%

MAJOR STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

MAJOR STREET FUND EXPENDITURES BUDGET VS. ACTUAL

	Expenditures	Expenditures	Expenditures	Expenditures Variance Actual & Original Budget	Expenditures Variance Actual & Final Budget
<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final Actual</u>		
2003-2004	\$52,000	\$52,000	\$26,466	49.10%	49.10%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Village approve the original budget for the upcoming fiscal year prior to April 1, the start of the fiscal year.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

MAJOR STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES (Continued)

		%
Total Revenues Original Budget	\$52,000	
Total Revenues Final Budget	<u>52,000</u>	
<u>(Increase) in Budgeted Revenues</u>	<u>\$0</u>	0.00%

The Village's final, actual major street fund revenues differed from final budget by \$1,697, a variance of 3.26 percent from final budget.

Major Street Fund Expenditures:

The Village's budget for expenditures changed as follows during the year:

		%
Total Expenditures Original Budget	\$52,000	
Total Expenditures Final Budget	<u>52,000</u>	
<u>(Increase) in Budgeted Expenditures</u>	<u>\$0</u>	0.00%

As indicated above, the Village's actual expenditures were less than final budget by \$25,534, a variance of 49.1 percent from final budget. Actual expenditures were significantly less than that budgeted due to decreased spending as a result of the uncertainty of the State revenue sharing.

LOCAL STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

LOCAL STREET FUND REVENUE BUDGET VS. ACTUAL

	Revenues	Revenues	Revenues Final	Revenues	Revenues
	Original Budget	Final Budget	Actual	Variance Actual & Original Budget	Variance Actual & Final Budget
<u>Fiscal Year</u>					
2003-2004	\$30,800	\$30,800	\$30,809	0.03%	0.03%

LOCAL STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES

LOCAL STREET FUND EXPENDITURES BUDGET VS. ACTUAL

	Expenditures	Expenditures	Expenditures	Expenditures	Expenditures
	Original Budget	Final Budget	Final Actual	Variance Actual & Original Budget	Variance Actual & Final Budget
<u>Fiscal Year</u>					
2003-2004	\$30,800	\$30,800	\$15,509	49.65%	49.65%

Original vs. Final Budget:

The Uniform Budget Act of the State of Michigan requires that the Village approve the original budget for the upcoming fiscal year prior to April 1, the start of the fiscal year.

VILLAGE OF VERNON - VERNON, MICHIGAN
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED MARCH 31, 2004

LOCAL STREET FUND BUDGET & ACTUAL REVENUES & EXPENDITURES (Continued)

		<u>%</u>
Total Revenues Original Budget	\$30,800	
Total Revenues Final Budget	<u>30,800</u>	
<u>(Increase) in Budgeted Revenues</u>	<u>\$0</u>	0.00%

The Village's final, actual major street fund revenues differed from final budget by \$9 a variance of 0.03 percent from final budget.

Local Street Fund Expenditures:

The Village's budget for expenditures changed as follows during the year:

		<u>%</u>
Total Expenditures Original Budget	\$30,800	
Total Expenditures Final Budget	<u>30,800</u>	
<u>(Increase) in Budgeted Expenditures</u>	<u>\$0</u>	0.00%

As indicated above, the Village's actual expenditures were less than final budget by \$15,291, a variance of 49.65 percent from final budget. Actual expenditures were significantly less than that budgeted due to decreased spending as a result of the uncertainty of the State revenue sharing.

CONTACTING THE VILLAGE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Village's finances. If you have questions about this report or need additional information, contact the Business Office, Village of Vernon.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF NET ASSETS
MARCH 31, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash and Cash Equivalents	\$1,020,542	\$314,506	\$1,335,048
Accounts Receivable	1,628	11,592	13,220
Interest Receivable	317	325	642
Taxes Receivable	251	0	251
Internal Balance	3,633	0	3,633
Total Current Assets	<u>\$1,026,371</u>	<u>\$326,423</u>	<u>\$1,352,794</u>
<u>NON-CURRENT ASSETS</u>			
Capital Assets	230,461	801,160	1,031,621
Less: Accumulated Depreciation	<u>(169,861)</u>	<u>(383,114)</u>	<u>(552,975)</u>
Total Noncurrent Assets	<u>\$60,600</u>	<u>\$418,046</u>	<u>\$478,646</u>
<u>TOTAL ASSETS</u>	<u>\$1,086,971</u>	<u>\$744,469</u>	<u>\$1,831,440</u>
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	12,677	390	13,067
Internal Balance	<u>0</u>	<u>3,633</u>	<u>3,633</u>
Total Current Liabilities	<u>\$12,677</u>	<u>\$4,023</u>	<u>\$16,700</u>
<u>NET ASSETS</u>			
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	60,600	418,046	478,646
Restricted	0	223,407	223,407
Unrestricted	<u>1,013,694</u>	<u>98,993</u>	<u>1,112,687</u>
<u>TOTAL NET ASSETS</u>	<u>\$1,074,294</u>	<u>\$740,446</u>	<u>\$1,814,740</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF ACTIVITIES
MARCH 31, 2004

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General Government	\$69,731	\$40,244	\$0	(\$29,487)	\$0	(\$29,487)
Public Safety	126,330	0	0	(126,330)	0	(126,330)
Public Works	105,873	0	0	(105,873)	0	(105,873)
Culture and Recreation	10,679	0	0	(10,679)	0	(10,679)
Total Governmental Activities	\$312,613	\$40,244	\$0	(\$272,369)	\$0	(\$272,369)
Business-Type Activities:						
Enterprise	35,572	72,775	0	0	37,203	37,203
<u>TOTALS</u>	<u>\$348,185</u>	<u>\$113,019</u>	<u>\$0</u>	<u>(\$272,369)</u>	<u>\$37,203</u>	<u>(\$235,166)</u>
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purposes				145,273	0	145,273
State Sources				163,680	0	163,680
Investment Earnings				12,081	3,366	15,447
Miscellaneous				18,362	0	18,362
Total General Revenues and Transfers				<u>\$339,396</u>	<u>\$3,366</u>	<u>\$342,762</u>
Change in Net Assets				<u>\$67,027</u>	<u>\$40,569</u>	<u>\$107,596</u>
Net Assets - Beginning				<u>1,007,267</u>	<u>699,877</u>	<u>1,707,144</u>
<u>Net Assets - Ending</u>				<u>\$1,074,294</u>	<u>\$740,446</u>	<u>\$1,814,740</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2004

		<u>Special Revenue Funds</u>		
	<u>General</u>	<u>Major</u>	<u>Local</u>	<u>Total</u>
	<u>Fund</u>	<u>Street</u>	<u>Street</u>	<u>Governmental</u>
		<u>Fund</u>	<u>Fund</u>	<u>Funds</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$717,140	\$163,285	\$140,117	\$1,020,542
Accounts Receivable	1,628	0	0	1,628
Interest Receivable	147	94	76	317
Taxes Receivable	251	0	0	251
Due from Other Funds	13,113	0	0	13,113
<u>TOTAL ASSETS</u>	<u>\$732,279</u>	<u>\$163,379</u>	<u>\$140,193</u>	<u>\$1,035,851</u>
<u>LIABILITIES</u>				
Accounts Payable	\$11,627	\$700	\$350	\$12,677
Due to Other Funds	0	6,185	3,295	9,480
Total Liabilities	\$11,627	\$6,885	\$3,645	\$22,157
<u>FUND BALANCES</u>				
Designated	103,102	0	0	103,102
Unreserved	617,550	156,494	136,548	910,592
Total Fund Balances	\$720,652	\$156,494	\$136,548	\$1,013,694
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$732,279</u>	<u>\$163,379</u>	<u>\$140,193</u>	<u>\$1,035,851</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2004

Total Governmental Fund Balances:	\$1,013,694
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported as assets in governmental
funds. The cost of the assets is \$230,461 and the
accumulated depreciation is \$169,861

<u>60,600</u>

TOTAL NET ASSETS -
GOVERNMENTAL ACTIVITIES

<u><u>\$1,074,294</u></u>

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2004

		Special Revenue Funds		
	General	Major	Local	Total
	Fund	Street	Street	Governmental
		Fund	Fund	Funds
<u>REVENUES</u>				
Taxes	\$145,273	\$0	\$0	\$145,273
State Sources	0	52,564	16,943	69,507
Licenses and Permits	11,003	0	0	11,003
Intergovernmental Revenues	94,173	0	0	94,173
Charges for Service	40,244	0	0	40,244
Fines and Forfeits	2,412	0	0	2,412
Investment Income	10,045	1,133	903	12,081
Miscellaneous Revenues	4,947	0	0	4,947
Total Revenues	\$308,097	\$53,697	\$17,846	\$379,640
<u>EXPENDITURES</u>				
Current:				
General Government	118,724	0	0	118,724
Public Safety	97,318	13,503	15,509	126,330
Public Works	105,873	0	0	105,873
Culture and Recreation	10,679	0	0	10,679
Total Expenditures	\$332,594	\$13,503	\$15,509	\$361,606
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(\$24,497)	\$40,194	\$2,337	\$18,034
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to Other Funds (Net)	0	(12,963)	12,963	0
Net Change in Fund Balance	(\$24,497)	\$27,231	\$15,300	\$18,034
<u>FUND BALANCE - BEGINNING</u>	745,149	129,263	121,248	995,660
<u>FUND BALANCE - ENDING</u>	\$720,652	\$156,494	\$136,548	\$1,013,694

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2004

Total net change in fund balances - governmental funds	\$18,034
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

48,993

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

<u>\$67,027</u>

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUND
MARCH 31, 2004

	<u>Enterprise</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$314,506
Accounts Receivable	11,592
Interest Receivable	325
Total Current Assets	<u>\$326,423</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets:	
Land	27,426
Improvements Other than Buildings	744,685
Machinery and Equipment	29,049
Total Capital Assets	<u>\$801,160</u>
Less Accumulated Depreciation	<u>(383,114)</u>
Total Noncurrent Assets	<u>\$418,046</u>
<u>TOTAL ASSETS</u>	\$744,469
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	\$390
Due to Other Funds	3,633
Total Current Liabilities	<u>\$4,023</u>
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets - Net of Related Debt	418,046
Restricted	223,407
Unrestricted	<u>98,993</u>
<u>TOTAL NET ASSETS</u>	<u>\$740,446</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
MARCH 31, 2004

	<u>Enterprise</u>
<u>OPERATING REVENUES</u>	
Base Charge Fees	\$69,340
Delinquency Fees	3,382
Miscellaneous	53
Total Operating Revenues	<u>\$72,775</u>
<u>OPERATING EXPENSES</u>	
Maintenance Salaries and Fringes	3,136
Administrative Supplies and Expense	8,507
Repairs and Maintenance	8,273
Depreciation and Amortization	15,656
Total Operating Expenses	<u>\$35,572</u>
Operating Income	<u>\$37,203</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Revenue	3,366
Change in Net Assets	<u>\$40,569</u>
<u>NET ASSETS - BEGINNING</u>	<u>699,877</u>
<u>NET ASSETS - ENDING</u>	<u><u>\$740,446</u></u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Enterprise</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Cash Received from Customers	\$72,952
Cash Payments to Suppliers for Goods and Services	(16,412)
Cash Payments to Employees for Services	(2,893)
Net Cash Provided by Operating Activities	<u>\$53,648</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Interest on Investments	<u>4,718</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	\$58,366
<u>BALANCES - BEGINNING OF YEAR</u>	<u>256,140</u>
<u>BALANCES - END OF YEAR</u>	<u>\$314,506</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used)</u>	
<u>By Operating Activities</u>	
Operating Income	\$37,203
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation and Amortization	15,656
(Increase) Decrease in Assets	
Accounts Receivable	177
Increase (Decrease) in Liabilities	
Accounts Payable	(66)
Due to Other Funds	<u>678</u>
<u>NET CASH PROVIDED BY OPERATING ACTIVITIES</u>	<u>\$53,648</u>

See accompanying notes to the basic financial statements.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

1) REPORTING ENTITY

The accompanying general purpose financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. The Village of Vernon's Village Council is the primary government which has oversight responsibility and control over all activities related to sanitation, public improvements, planning and zoning, and general administrative services within the Village.

The Village receives funding from local, state and federal government sources and must comply with the accompanying requirements of these funding sources. However, the Village is not included in any other governmental "reporting entity" as defined by GASB pronouncements since the Village Council is a publicly elected governing body that has separate legal standing and is fiscally independent of other governmental entities. As such, the Village Council has decision making authority, the authority to levy taxes and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Village of Vernon conform to generally accepted accounting principles as applicable to governmental entities. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the Village’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the Village’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The Village’s basic financial statements include both government-wide (reporting the Village as a whole) and fund financial statements (reporting the Village’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Village’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds of the Village are grouped into the categories governmental and proprietary.

GOVERNMENTAL FUNDS

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Village. Revenues are derived primarily from property taxes and state distributions, grants and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

PROPRIETARY FUND

Enterprise Fund

This fund is used to account for the operations of the sanitary sewer system which is financed by user charges, and where periodic measurement of net income is appropriate for capital maintenance and management control.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The proprietary fund also uses the accrual basis of accounting.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

The Village reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the Village receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The Village considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Building and Improvements	15 – 50 Years
Furniture and Equipment	5 – 20 Years
Vehicles	5 Years

F) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

G) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

I) BUDGETS

The Village follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The Village Council prepares a proposed budget on a functional basis using the modified accrual basis for the general and special revenue funds and the accrual basis for its proprietary fund for presentation at a public hearing.
2. A public hearing is held in conjunction with a regular board meeting.
3. The Village Council adopts the budget at a regular board meeting.
4. Excess appropriations at the end of the fiscal year lapse.

Presented budgeted amounts are as originally adopted, or as amended by the Village Council.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Authority's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Authority for these budgetary funds were adopted to the functional level.

4) DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the Fire Authority are at one bank in the name of Village of Vernon. Michigan Compiled Laws (MCL), Section 129.91, authorizes a local unit to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations; bond securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Undeposited Cash – At March 31, 2004, the Village had \$60 of petty cash on hand which is included as part of "cash and cash equivalents."

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

4) DEPOSITS AND INVESTMENTS (Continued)

Deposits - The Village Council authorized the following financial institutions for the deposit of the Village's funds for the year ended March 31, 2004: Bank One and Fifth Third Bank.

The Village's deposits are in accordance with statutory authority.

At March 31, 2004, the carrying amount of the Authority's deposits was \$1,335,048 and the bank balance was \$1,335,261. \$100,000 of the bank balance was covered by federal depository insurance and \$1,235,261 was uninsured and uncollateralized.

5) RESTRICTED CASH

General Fund:

An account was established to set aside money for the eventual replacement of equipment for the administration, department of public works and the police department. As of March 31, 2004, the balance was \$58,344.

Enterprise Fund:

The general purpose fund, established in 1969 under requirements of the bond issue, is to be used for paying the cost of repairing or replacing any damage to the sewer system which may be caused by any unforeseen catastrophe or for making extensions or improvements to the system. Currently, the general purpose fund is being funded at \$400 per month to provide for the improvement of the sewer system. In addition, the sewer rate increase of \$4 per quarter and delinquent sewer fees collected are transferred to the reserve account. The restricted balance was \$223,407 as of March 31, 2004.

6) DETAILED LISTING OF DESIGNATED FUND BALANCES

A detail description of fund balance designations for the general fund at March 31, 2004 is presented below:

Designated for Equipment Replacement	\$ 58,344
Designated for Park Development	10,690
Designated for Garbage Collection	<u>34,068</u>
 <u>TOTAL</u>	 <u>\$ 103,102</u>

7) PROPERTY TAX

Property taxes are levied on July 1 on the assessed value determined as of December 31 of the preceding year for all taxable real and personal property located in the Village. Property tax revenue is recognized in the fiscal year for which taxes have been levied.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

8) CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2004, was as follows:

	Balance April 1, 2003	Additions	Deductions	Balance March 31, 2004
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$10,000	\$18,839	\$0	\$28,839
Furniture and Equipment	119,874	24,140	0	144,014
Vehicles	34,680	22,928	0	57,608
Totals at Historical Cost	<u>\$164,554</u>	<u>\$65,907</u>	<u>\$0</u>	<u>\$230,461</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(10,000)	(799)	0	(10,799)
Furniture and Equipment	(111,544)	(8,634)	0	(120,178)
Vehicles	(31,403)	(7,481)	0	(38,884)
Total Accumulated Depreciation	<u>(\$152,947)</u>	<u>(\$16,914)</u>	<u>\$0</u>	<u>(\$169,861)</u>
<u>GOVERNMENTAL ACTIVITIES</u> <u>CAPITAL ASSETS - NET</u>	<u>\$11,607</u>	<u>\$48,993</u>	<u>\$0</u>	<u>\$60,600</u>
<u>BUSINESS - TYPE ACTIVITIES</u>				
Land	\$27,426	\$0	\$0	\$27,426
Buildings and Improvements	744,685	0	0	744,685
Furniture and Equipment	29,049	0	0	29,049
Totals at Historical Cost	<u>\$801,160</u>	<u>\$0</u>	<u>\$0</u>	<u>\$801,160</u>
Less: Accumulated Depreciation				
Buildings and Improvements	(349,861)	(14,740)	0	(364,601)
Furniture and Equipment	(17,597)	(916)	0	(18,513)
Total Accumulated Depreciation	<u>(\$367,458)</u>	<u>(\$15,656)</u>	<u>\$0</u>	<u>(\$383,114)</u>
<u>BUSINESS - TYPE ACTIVITIES</u> <u>CAPITAL ASSETS - NET</u>	<u>\$433,702</u>	<u>(\$15,656)</u>	<u>\$0</u>	<u>\$418,046</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

	Governmental	Business - Type	TOTAL
General Government	\$ 16,914	\$ 15,656	\$ 32,570

9) DEFERRED COMPENSATION (457) PLAN

The Village has adopted a Deferred Compensation Plan under Section 457 of the Internal Revenue Code. Individual employees, at their own discretion and in accordance with federal regulations, can elect to have a portion of their salary withheld and contributed to their individual trust accounts. No contributions are made by the Village.

10) RELATED PARTY

The Village of Vernon bought supplies from a board member's business. The total value of the supplies bought for the year ended March 31, 2004 was \$1,642.

VILLAGE OF VERNON
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2004

11) OPERATING LEASES – WATER PROJECT

The Village entered into a two year lease on December 17, 2003. The lease requires a \$5,000 non-refundable payment at the beginning of the lease. The lease is for a parcel of land that the Village has the option to buy anytime during the lease for \$150,000. Rent expense for the year was \$5,000.

12) INTERFUND BALANCES

Interfund balances at March 31, 2004 consisted of the following:

DUE FROM				
DUE TO	MAJOR STREET FUND	LOCAL STREET FUND	ENTERPRISE FUND	TOTAL
General Fund	\$6,185	\$3,295	\$3,633	\$13,113

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

13) CONTINGENCIES

The Village receives grant funds from federal and state agencies. The grant programs are subject to audits by the granting Village, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Such audits could result in a request for reimbursement by the agency. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although management expects such amounts to be immaterial.

REQUIRED
SUPPLEMENTARY
INFORMATION

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
Taxes	\$141,800	\$141,800	\$145,273	\$3,473
Licenses and Permits	9,500	9,500	11,003	1,503
Intergovernmental Revenues	90,500	90,500	94,173	3,673
Charges for Service	38,060	38,060	40,244	2,184
Fines and Forfeits	2,200	2,200	2,412	212
Investment Income	20,000	20,000	10,045	(9,955)
Miscellaneous Revenues	9,400	9,400	4,947	(4,453)
Total Revenues	\$311,460	\$311,460	\$308,097	(\$3,363)
<u>OTHER FINANCING SOURCES</u>				
Transfers From Other Funds	47,000	60,140	0	(60,140)
Total Revenues and Other Financing Sources	\$358,460	\$371,600	\$308,097	(\$63,503)
<u>EXPENDITURES</u>				
General Government	144,670	149,820	118,724	31,096
Public Safety	104,925	105,425	97,318	8,107
Public Works	94,370	103,470	105,873	(2,403)
Culture and Recreation	14,495	12,885	10,679	2,206
Total Expenditures	\$358,460	\$371,600	\$332,594	\$39,006
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	\$0	\$0	(\$24,497)	(\$24,497)
<u>FUND BALANCE - BEGINNING</u>			745,149	
<u>FUND BALANCE - ENDING</u>			\$720,652	

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MAJOR STREET FUND
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
State Sources	\$50,000	\$50,000	\$52,564	\$2,564
Investment Income	2,000	2,000	1,133	(867)
Total Revenues	\$52,000	\$52,000	\$53,697	\$1,697
<u>EXPENDITURES</u>				
Public Safety	52,000	39,000	13,503	25,497
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$0	\$13,000	\$40,194	\$27,194
<u>OTHER FINANCING (USES)</u>				
Transfers to Other Funds	0	(13,000)	(12,963)	37
Net Change in Fund Balance	\$0	\$0	\$27,231	\$27,231
<u>FUND BALANCE - BEGINNING</u>			129,263	
<u>FUND BALANCE - ENDING</u>			\$156,494	

VILLAGE OF VERNON, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LOCAL STREET FUND
FOR THE YEAR ENDED MARCH 31, 2004

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
State Sources	\$16,000	\$16,000	\$16,943	\$943
Investment Income	2,000	2,000	903	(1,097)
Total Revenues	<u>\$18,000</u>	<u>\$18,000</u>	<u>\$17,846</u>	<u>(\$154)</u>
<u>EXPENDITURES</u>				
Public Safety	<u>30,800</u>	<u>30,800</u>	<u>15,509</u>	<u>15,291</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$12,800)	(\$12,800)	\$2,337	\$15,137
<u>OTHER FINANCING SOURCES</u>				
Transfers from Other Funds	<u>12,800</u>	<u>12,800</u>	<u>12,963</u>	<u>163</u>
Net Change in Fund Balance	<u>\$0</u>	<u>\$0</u>	<u>\$15,300</u>	<u>\$15,300</u>
<u>FUND BALANCE - BEGINNING</u>			<u>121,248</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$136,548</u>	

OTHER SUPPLEMENTAL
INFORMATION

VILLAGE OF VERNON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2004

GENERAL GOVERNMENT

Legislative

Legislative and Administrative Wages	\$46,024
Payroll Taxes	3,134
Office Supplies	1,793
Legal and Accounting	6,040
Community Promotion	1,061
Printing and Postage	1,949
Insurance	15,603
Utilities	2,771
Miscellaneous	1,353
Contracted Services	6,389
Travel	280
Seminars	975
Capital Outlay	732
Total Legislative	<u>\$88,104</u>

Village Hall and Grounds

Wages	5,730
Payroll Taxes	490
Capital Outlay	12,079
Contracted Services	1,665
Insurance	2,173
Repairs	1,561
Supplies	1,516
Utilities	3,421
Total Village Hall and Grounds	<u>\$28,635</u>

Election

Wages	349
Contracted Services	172
Printing	74
Supplies	390
Total Election	<u>\$985</u>

Cemetery Board

Total General Government	<u>1,000</u>
	<u>\$118,724</u>

VILLAGE OF VERNON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2004

PUBLIC SAFETYPolice

Wages	\$39,551
Payroll Taxes	3,314
Capital Outlay	30,010
Community Promotion	202
Contract Services	1,333
Gasoline and Oil	2,307
Insurance	3,749
Legal Fees	2,756
Miscellaneous	86
Repairs and Maintenance	642
Supplies	1,191
Telephone	1,102
Travel	124
Total Police	<u>\$86,367</u>

Building and Zoning

Wages	80
Contract Services	8,345
Legal	2,497
Printing	29
Total Building and Zoning	<u>\$10,951</u>

Total Public Safety	\$97,318
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PUBLIC WORKSBrush Cleanup

Wages	11,929
Payroll Taxes	932
Capital Outlay	19,100
Supplies and Materials	508
Contract Services	600
Insurance	603
Total Brush Cleanup	<u>\$33,672</u>

Sidewalks

Contractual Services	1,394
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Street Lighting

Supplies and Materials	698
Utilities	8,892
Repairs	195
Total Street Lighting	<u>\$9,785</u>

VILLAGE OF VERNON, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2004

PUBLIC WORKS (Continued)

Sanitation

Garbage and Waste Collection	\$24,695
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Trees & Services

Contract Services	3,333
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Water Project

Contract Services	5,000
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Miscellaneous	27,994
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Total Water Project	<u>\$32,994</u>
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Total Public Works	\$105,873
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CULTURE AND RECREATION

Parks and Recreation

Wages	1,199
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Payroll Taxes	92
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Capital Outlay	5,040
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Contractual Service	1,520
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Miscellaneous	50
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Insurance	22
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Supplies	1,356
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Utilities	400
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Total Parks and Recreation	<u>\$9,679</u>
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Library Board

	<u>1,000</u>
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Total Culture and Recreation	<u>\$10,679</u>
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TOTAL EXPENDITURES

	<u><u>\$332,594</u></u>
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VILLAGE OF VERNON, MICHIGAN
SPECIAL REVENUE FUND
SCHEDULE OF EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2004

	MAJOR STREET	LOCAL STREET	TOTALS
<u>EXPENDITURES</u>			
<u>Street Construction and Maintenance</u>			
Salaries	\$1,206	\$491	\$1,697
Payroll Taxes	93	39	132
Contract Services	0	0	0
Equipment Rental	2,038	973	3,011
Insurance	62	25	87
Miscellaneous	61	68	129
Supplies	227	227	454
Total Street Construction and Maintenance	\$3,687	\$1,823	\$5,510
<u>Traffic Service</u>			
Salaries	268	171	439
Payroll Taxes	20	13	33
Equipment Rental	79	58	137
Insurance	13	8	21
Maintenance	846	667	1,513
Total Traffic Service	\$1,226	\$917	\$2,143
<u>Winter Maintenance</u>			
Salaries	1,826	1,587	3,413
Payroll Taxes	102	61	163
Contract Services	0	0	0
Equipment Rental	2,854	1,537	4,391
Insurance	60	35	95
Supplies	616	616	1,232
Total Winter Maintenance	\$5,458	\$3,836	\$9,294
<u>Bridge Maintenance</u>			
Salaries	0	123	123
Payroll Taxes	0	9	9
Equipment Payable	0	43	43
Insurance	0	6	6
Contract Services	700	7,789	8,489
Total Bridge Maintenance	\$700	\$7,970	\$8,670
<u>Drain Maintenance</u>			
Contract Services	89	0	89
Salaries	1,060	270	1,330
Payroll Taxes	37	22	59
Equipment Rental	1,175	658	1,833
Insurance	23	13	36
Supplies	48	0	48
Miscellaneous	0	0	0
Total Drain Maintenance	\$2,432	\$963	\$3,395
<u>TOTAL EXPENDITURES</u>	<u>\$13,503</u>	<u>\$15,509</u>	<u>\$29,012</u>

VILLAGE OF VERNON, MICHIGAN
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS -
CURRENT TAX COLLECTION FUND
FOR THE YEAR ENDED MARCH 31, 2004

<u>CASH BALANCE - APRIL 1, 2003</u>	\$92
 <u>RECEIPTS</u>	
Current Property Taxes, 2002 Levy	143,591
Delinquent Sewer Fees Added to 2002 Levy	12,179
Lawn care and Sidewalk Assessment	1,265
Garbage Assessment	27,040
Administration Fees	1,838
Total Taxes	<u>\$185,913</u>
Interest Earned	<u>570</u>
Total Cash Receipts	<u>\$186,483</u>
 <u>DISBURSEMENTS</u>	
Distribution of Collections to General Fund	<u>186,475</u>
 <u>CASH BALANCE - MARCH 31, 2004</u>	 <u><u>\$100</u></u>



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

May 28, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Village Council of
Village of Vernon

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Village of Vernon, as of and for the year ended March 31, 2004, which collectively comprise the Village of Vernon's basic financial statements and have issued our report thereon dated May 28, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Village of Vernon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Village of Vernon's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Village Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf P.C.
LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

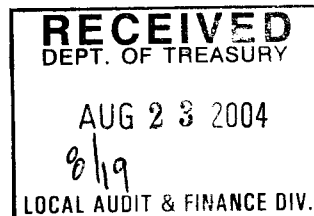


Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

May 28, 2004

To the Finance Committee of
the Village of Vernon



We have audited the general purpose financial statements of the Village of Vernon for the year ended March 31, 2004; and have issued our report thereon dated May 28, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 28, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village of Vernon. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Village of Vernon's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Village of Vernon are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Village of Vernon changed accounting policies related to fixed assets by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 34, in 2004. We noted no transactions entered into by Village of Vernon during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the budget is based on prior experience and information from the Michigan Department of Treasury. We evaluated the key factors and assumptions used to develop the budget in determining that it is reasonable in relation to the financial statements taken as a whole.



The Village of Vernon
Page 2
May 28, 2004

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements, that in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the the Village of Vernon that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Village of Vernon's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village of Vernon's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Vernon's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of finance committee and management of the Village of Vernon and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Very truly yours,

Lewis & Knopf PC

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS